National Budget Conference

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Statement by the Chair of the Local Development Partners' Group

Ms. Jennie Barugh, DFID Head of Office

Check against delivery

Right Honorable Prime Minister

Honorable Minister of Finance, Planning and Economic Development

Honorable Ministers

Honorable Members of Parliament

Representatives of Civil Society Organizations and the Private Sector

Members of the Diplomatic Community,

Distinguished Participants,

Ladies and Gentlemen,

This year's budget conference is unique in a sense as it combines the discussion on the budget with an explicit focus on growth. We commend the intent to ensure that the budget does the maximum possible to promote sustained, inclusive growth.

Development partners too will take this opportunity to reflect - including in conversations with Government as part of the Economic Management Group, and other fora - on whether we are doing as much as we can to support sustained, inclusive growth in Uganda. We invest heavily in development in this country. Over the last decade OECD partners have provided almost 10 billion dollars in Official Development Assistance to Uganda. We want to work together with Government to maximize the impact of that aid for development in Uganda.

To consider the challenges and opportunities this budget confronts, I would like to highlight seven issues, with respect to the economic performance of the past year and looking ahead to the next.

First, and critically, Uganda continues to maintain **macro economy stability**: single digit inflation, a stable balance of payments position, a broadly stable foreign exchange rate and adequate foreign exchange reserves – in the face of uncertainty in the global economy. This stability – alongside a range of other factors including better weather and sustained monetary policy easing

- has underpinned a **recovery in economic growth,** from 3.9 percent in 2016/17 to 5.8 percent in 2017/18. This positive outlook for growth is projected to continue in 2018/19 to 6 percent.

Second, while the recovery of the economy is a welcome development, growth is still lower than what is desired to achieve a middle-income status as envisaged by NDP II. Once high population growth in Uganda is accounted for, the economy's average annual growth over the period FY12/13 to FY17/18 amounts to only about 1 percent in per capita terms. Thus, Uganda is falling behind Kenya and Tanzania, and has recently been overtaken by Rwanda in terms of GDP per capita. And worryingly, despite growth, the National Household Survey 2016/17 report indicated that poverty increased between 2012/13 and 2016, from 19.7% to 21.4%.

This means economic growth has not been adequately inclusive in Uganda. **Raising the quality, as well as the rate of growth**, will be critical to ensure that the economy is best placed to support the aspirations of all Ugandans. The focus of this year's budget on enhancing productivity and creating jobs is therefore hugely welcome. Creating high productivity jobs is a critical component of turning Uganda's fast-growing population into an engine for sustained growth. Commercializing agriculture – including through tackling land reform – and accelerating industrialization – so long as this is done in a sustainable, climate sensitive way – will spur growth throughout the economy.

Third, the other key to ensuring Uganda's booming population helps drive development and growth is **human capital**. Investing in health and education, in women's empowerment, including through tackling gender-based violence, and in people's resilience through social protection, are all vital. However, Uganda continues to allocate a declining share of its budget to social sectors; and much lower than the East African countries' average. As a result, the earlier progress on human development is showing signs of stagnation; and if continued, may cause reversals of some of this progress. Development partners make a significant contribution in these sectors – including 27% of this year's on-budget spend in health, education and social development - but we don't want to substitute for Government leadership and resources in this critical area. We are keen to have a constructive dialogue about how to shift the way we work together in these sectors, to maximise the sustainability of our support.

Fourth, attracting investment into Uganda, which is critical for Uganda's long-term development, requires a favourable investment climate. Investors are clear that core components of this include strong, independent institutions - such as the judiciary – and the rule of law. It is with concern that we note that recent political events risk undermining this. As partners we continue to emphasise the importance of strong institutional foundations and respect for political freedoms in underpinning sustained growth and development.

Fifth, resourcing a budget which can deliver growth requires **boosting domestic resource mobilization** efforts. However, Uganda only collected around 13.8% of GDP in 17/18 – almost 1% of GDP lower than its target, and lower than most of the countries in the region. With the Government formulating a new medium-term Domestic Revenue Mobilization Strategy, a huge opportunity arises to explore new options for domestic resource mobilization – one that we stand ready to assist with. The recent World Bank Economic Update indicated that Uganda between 4.5 and 5 percent of GDP in 2016/17 due to tax exemptions. We are hopeful that Government will explore this and other strategies to boost domestic resources, while ensuring that taxes are not disproportionately affecting the poor.

Sixth, the flipside of raising resources is spending them well, through high quality budget planning and execution. We see Government has prioritized **improving public investment management** as part of the Public Finance Management (PFM) reform strategy. This is commendable and worth dedicating effort towards – the World Bank's Economic Update in 2016 suggested that strong public investment management could add 3% to growth – a potentially transformational effect. Strengthening public investment management means focusing on the whole investment cycle – including the selection of the right projects; careful planning; strong management to keep them on time and on budget; and high quality, timely and transparent evaluation. Improving this cycle should help to curb corruption and misuse of public funds while ensuring the Government's heavy investment in infrastructure delivers the maximum possible impact in boosting growth and reducing poverty.

Lastly, increasing public investments have implications for the critical issue of **debt**. We welcome the commitments the Government has made under its Charter of Fiscal Responsibility to keep debt at safe levels - below 50 percent in Net Present Value terms. However, if all projects currently included in the investment pipeline were fully implemented on time, remaining below prudent thresholds would be challenging. We therefore encourage the Government to scrutinize new borrowing initiatives very carefully and remain at low risk of debt distress. This is all the more vital given that while oil production is getting closer, medium-term fiscal projections include expected oil revenues, so this money is already 'spent' to some extent and not available for additional projects. And paying the costs of debt already takes up 12% of Uganda's budget – higher than allocations to critical sectors such as health.

Managing these competing priorities within a budget is a **careful balancing act**. **Casting the discussions of the budget in the context of growth is therefore extremely helpful**. Inclusive growth reduces poverty – potentially shrinking the intensity of the needs that Government seeks to meet. It also should expand the resource base for Government to draw upon to meet future needs.

We wish you successful deliberations on designing a budget which supports growth and poverty reduction, and look forward to discussions of how we, the development partners, can best engage to support sustainable inclusive growth in Uganda.